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West Germany: (Chancellor-designate Erhard and Foreign Minister Schroeder have indicated that Bonn will not oppose an East-West treaty on observation posts, if such an agreement does not make the status quo more rigid.)

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(This attitude appears to constitute a slight relaxation in German insistence that steps toward reducing tensions be accompanied by progress toward German reunification. In Bonn's view, however, observation posts must not be confined to German territory. Also, the Germans say, great care would have to be exercised so as not to enhance the status of the East German regime.)

Argentina: There is increasing pressure for the annulment of Argentina's petroleum contracts with American companies and cancellation of its Investment Guarantee Agreement (IGA) with the US.

The American Embassy reports that even nationalist elements within President-elect Illia's own party, in addition to Peronists and Communists, are trying to harden the incoming government's position on these highly emotional issues. They are hitting hard on the themes that the contracts are corrupt and that the IGA is an insult to Argentine sovereignty. Also, some party leaders are telling Illia that he cannot go back on his campaign pledges without being considered "another Frondizi."

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Thus far, Illia and a number of his closest advisers have indicated an intention to move cautiously. On the oil contracts, for example, Illia has suggested that the government and the oil companies negotiate new working arrangements prior to his taking any action to annul existing contracts.

The impact of the extremists' pressure, however, is reflected in a decline in the stock exchange and the peso exchange rate.

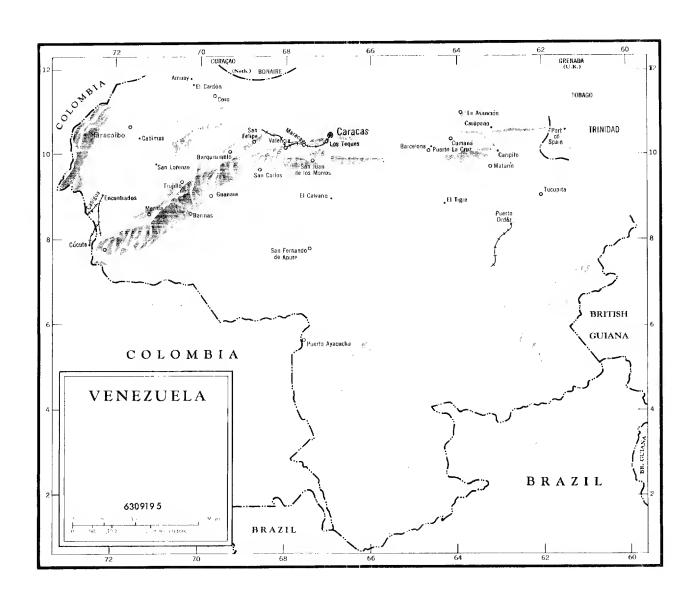
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DAILY BRIEF

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<u>Venezuela</u>: US-owned businesses continue to suffer extensive damage from the stepped-up sabotage campaign of the Communist-dominated terrorists, and there probably is more to come.

Arsonists of the Armed Forces of National Liberation (FALN) burned a Dupont paint plant in Caracas on 19 September. Three days before, the FALN attacked the Otis Elevator Company's installation. This brings to at least seven the number of American-owned firms that have been damaged by terrorists since 1 September.

Meanwhile, the Communist Party (PCV) is planning an extensive sabotage campaign against US-owned oil installations in northeastern Venezuela,

The commitment of PCV forces to carry out activities that heretofore have generally been left to the FALN suggests that the Communists may have decided to pull out all the stops in pressing their pre-election terrorist campaign.

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Brazil: The political situation in Brazil remains tense and confused amid widespread reports of possible further antigovernment outbreaks.

Military units in the Sao Paulo area are on an alert status in anticipation of a threatened general strike by Communist-led labor unions. Adding to the tension are stories circulating in Brazil that the sergeants' uprising last week was actually part of a broader extremist-inspired effort that may be revived.

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The attitude of the army and War Minister Jair Ribeiro are considered the key factors in the situation. High-ranking officers in all services are disturbed by present conditions and reportedly are pressuring President Goulart to request congress to agree to a state of siege in order to restore stability.

Goulart's intentions remain unclear. According to the US chargé, the Brasilia uprising and the government's "coddling" of the leftist sergeants have "added to the precariousness of Goulart's authority."

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NOTES

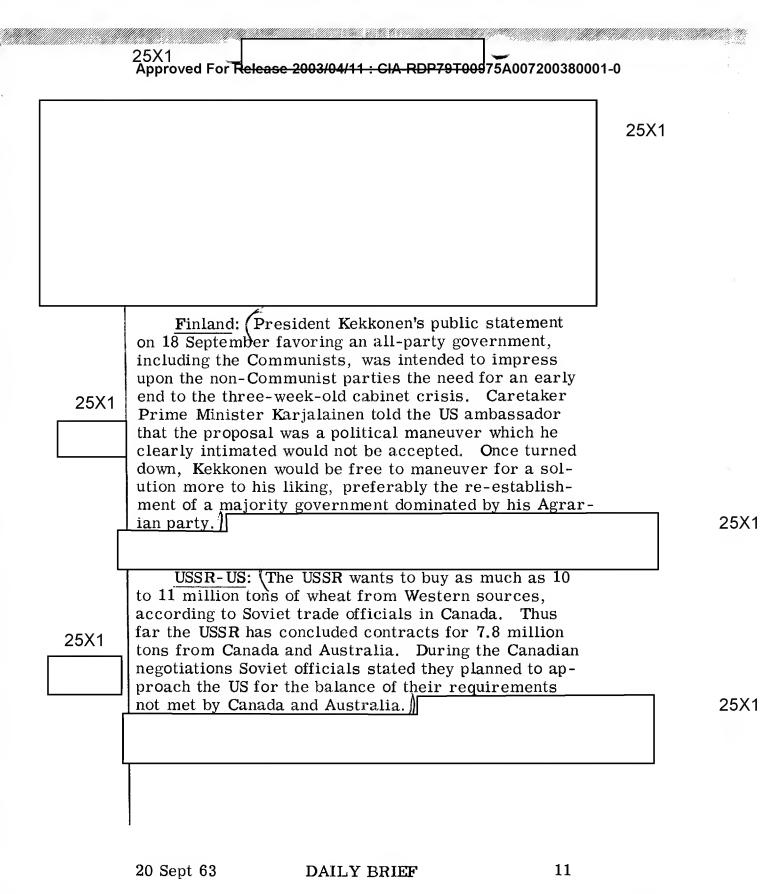
*Pakistan - Communist China: Karachi and Peiping are publishing today a Pakistani note giving strong support for Communist China's proposal for a conference of heads of government on the prohibition of nuclear weapons. Pakistani officials state that Foreign Minister Bhutto told the Chinese of his government's stand in late August, but that publication was postponed in view of US Under Secretary Ball's mission to Pakistan 25X1 in early September. Pakistan signed the test ban treaty on 14 August. Communist China: (A probable surface-to-air missile site with five launch positions 25X1 at Kucheng airfield, about 160 miles south 25X1 This would bring the total number of known of Peiping. 25X1 SAM sites in China to 11, not all of which are operational. Although it cannot be determined when these sites were constructed, at least two were under construction during 1962, long after the general withdrawal of Soviet assistance.

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DAILY BRIEF

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